



South Asian Union Divided We Stand

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The South Asian wave of regionalism started in 1980 when the former President of Bangladesh proposed the formation of an institutional arrangement for regional cooperation in South Asia. Barred by bureaucratic tussles, the idea finally took shape in 1985, when the heads of South Asian states met to form the South Asian Association for Regional Cooperation (SAARC) and adopted a formal charter. The seven member countries affirmed their commitment to achieve economic integration for mutual prosperity. An organization that began with an initial membership of seven countries has today grown by admitting Afghanistan as a full member in 2005 and six other countries with observer status.

As the 15th SAARC Summit in Colombo draws near, some have called the organization a “failure” as it has not delivered in spite of its tremendous potential. This report focuses on the areas where the organization is lacking and other suggestions that must be taken into consideration to improve its credibility.

Are the SAARC member countries committed to the idea of a South Asian Union for which they would make hefty economic, social and political sacrifices, needed to realize such an arrangement? How important is regional economic cooperation towards achieving this goal? What role has the SAARC Secretariat played so far? How to achieve a faster and more effective model of a South Asian Union?

I SAARC: THE UNEVEN PROGRESS

Instead of working on a solid basis for creating peace, security and prosperity in South Asia, the

Association, for the first several years, emphasized cooperation of a technical nature in areas such as agriculture, education, meteorology and communication. The emphasis on a social charter or free trade area came much later and was considered ‘too little, too late’ since by then, the organization had already acquired the reputation of being a non-performing entity.

Apart from the delayed realization of its essential goals, SAARC has also fallen prey to regional political tensions. South Asian countries, especially India and Pakistan, continue to live with acrimonious feelings, engendered by the partition that dates back to the colonial period.

These tensions in turn, have on several occasions, caused the annual SAARC summits to be postponed or cancelled (in the twenty three years of its existence, SAARC has only had fourteen meetings so far). As the SAARC Charter does not allow bilateral political issues to be discussed at its summits, the tensions between its member states seem far from being resolved.

Within SAARC, India is the largest member state and was the only country that shared borders with all the other member states, prior to the induction of Afghanistan in the organization. Hence, without doubt, India bears a disproportionate responsibility for the success or failure of SAARC and is regarded as the necessary engine as well as the likely obstacle in the fulfillment of the organization's potential.

Also, India was disinterested in and suspicious of SAARC in the beginning, as it believed it could prosper more rapidly by not being shackled to its immediate neighborhood.

II

IMPERATIVES OF ECONOMIC COOPERATION

South Asia has great economic strength in terms of market potential, rich natural resources and human capital. Unfortunately, the large comparative advantages that the SAARC countries have in certain export services are reduced considerably due to poorly managed customs services. This hinders the large, untapped potential for economic growth and employment. South Asia's imports and exports are a much smaller share of each country's GDP than in Latin America or East Asia, and tariffs are among the highest in the world. Intra-regional trade is insignificant, representing only 4 per cent of their total trade as against 62 per cent in the European Union, 55 per cent in the NAFTA and 35 per cent in ASEAN. The collective share of the SAARC region in world trade is a dismal one per cent.

Under these circumstances, the need is to make SAARC a strong economic bloc, leaving aside bilateral disputes. Moreover, the official trade data has often not reflected the true picture as trade also takes place through informal channels. This is highly detrimental to the economies of

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- Muchkund Dubey

thereby expanding the size of the markets and facilitating cost-reductions through enhanced economies of scale.

SAPTA & SAFTA: Regional Milestones

SAARC which originated as a result of political choices shunned all forms of cooperation in areas of money and finance until 1995, when after the completion of the first round of long negotiations,

the South Asian Preferential Trading Agreement (SAPTA) was constituted. For almost a decade, SAPTA went along the unproductive and tedious course of commodity-by-commodity negotiations for reducing tariffs. Thereafter, the South Asian Free Trade Agreement was drafted in 2004 at the end of the Islamabad Summit. This agreement was hailed as the most productive decision taken by the SAARC leaders since the time of the institution's inception as it brought the South Asian countries a step forward in achieving economic integration.

SAFTA can act as a vehicle through which all participants in the region can gain by exploring their competitive advantages. Integration of economies in South Asia would lead to the emergence of a big market for investors. Though SAFTA has managed to get all the SAARC members on board, there still exist barriers, as not all member states are equally optimistic, especially the Least Developed Countries (LDCs). They are skeptical and suspicious as they fear the risk of revenue-erosion and collapse of their already weak domestic industrial bases due to a decrease in tariffs.

As a result, the timeframe for the complete implementation of the agreement, by reducing tariffs to 0-5%, has been set to 2016. However, a member of the Eminent Persons Group (EPG), Muchkund Dubey argues, “By 2016, the whole process might become irrelevant because of the likely reduction of tariffs to even lower levels as a result of the multilateral trade negotiations under WTO and various bilateral agreements.” Also, the treaty hardly has any provisions relating to antidumping, subsidies, and countervailing measures, technical barriers to trade and sanitary measures. All these issues are pertinent when a region moves into a free trade agreement, and especially so, when the world is keen on adopting environment-friendly measures.

Peace is essential for national as well as regional prosperity. In the case of South Asia, bilateral tensions will prove detrimental to the implementation of SAFTA in letter and spirit. For example, both India and Pakistan are members of the WTO. While India has accorded the Most Favored Nation status (MFN) to Pakistan, the latter has not reciprocated in the same way, as it claims that SAFTA has no clauses with regard to granting MFN status to India.

This goes against the WTO norms (Article 1 of the General Agreement on Tariffs and Trade 1994). Adhering to the principle of bilateralism, India has not brought this up for discussions at the WTO. Thus, the objective of SAFTA will be defeated if these two relatively developed trading partners fail to increase their mutual trade.

Expanding the Secretariat

The SAARC Secretariat, headed by the Secretary General is in a dismal shape due to the heavy restrictions laid by the organization's Charter. A regional organization's secretariat is an institution that is conceived to represent the general interests of the organization, and due to its non partisan character it has the authority to initiate programs and projects to strengthen the cooperation between the member countries. The Secretariat of the European Union, known as the European Commission has played and still plays a vital role in bringing about the integration of the European community.

Even the Association of South-East Asian Nations (ASEAN) has revised the role and mandate of its Secretariat several times since its inception in 1976. In the case of SAARC, the Secretary General is appointed on a rotating basis from each member country and the various Directors are appointed by their host governments for a fixed term. SAARC activities are highly decentralized and disaggregated. Thus, all SAARC agreements seem to be intentions of individual member states that need to be addressed, but their implementation is left to the individual states to work out. Also, the major decisions that are taken at the annual summits are held back due to their constant postponement or cancellation.

The ASEAN which started with a modest agenda progressively achieved a greater and deeper economic cooperation due to the larger mandate as well as the enhanced role of the Secretary General and the Secretariat. Therefore, in order for initiatives of SAARC such as SAFTA to take successful course in the future and for important decisions to take shape, it is imperative for the SAARC member states to revise their charter and give more powers to the Secretary General and the Secretariat, so that it can act as a medium of overseeing and monitoring the progress of the various SAARC initiatives in its member countries.

III CHALLENGES AHEAD

The progress of economic integration depends upon the willingness of national authorities to confer real powers on supranational authorities. South Asia is in dire need for implementation of trade facilitation measures in order to improve economic growth.

According to the World Bank, the cost of trading across borders in South Asia is one of the highest in the world. According to a World Bank report, crossings between India and Bangladesh are so congested

that queues often exceed one thousand trucks on the Indian side, with the result that the crossing time can take up to ninety nine hours instead of the usual twenty one.

The failure to implement trade facilitation measures can also be a detriment to the transit rights of landlocked states like Afghanistan, Nepal, and Bhutan. There are very few developed transit points between every country as most of the trade links through sea and road are almost on the verge of collapse. Therefore, necessary recommendations must be made by the SAARC Intergovernmental Group on Transport so that necessary ideas can be developed to curb this problem.

Trade facilitation measures are not enough and a lot needs to be done on the infrastructure front. For example, most of the SAARC trade takes place by sea. The average number of days required for customs clearance is over eight days in South Asia, compared to less than six days in East Asia and just about two days in the developed countries. As a result, trade is getting diverted to the informal sector.

South Asian economies have maintained a higher level of protection within the region as compared

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with the rest of the world. For example, trade between India and Pakistan is far lower than trade between India and the European Union. Also, South Asian products compete with each other in the international market and this competition can be reduced by projecting all these commodities as one, so that the benefits can be reaped equitably by all member states.

Apart from that the people-to-people connection is very low as there are no air links connecting the capital cities of the member states in the SAARC region. SAFTA does not include trade in services

even though the service sector accounts for a huge chunk of the economies of the South Asian countries. Apart from reduction in tariffs, importance must also be given to the reduction of para-tariff and the non-tariff barriers that contribute equally to the

stalling of free flow of goods and services across borders.

In today's era of transnationalism and interdependence, South Asia has been described as 'a loveless family where the members feed on each other's fears'. SAARC is slowly waking up from its slumber, evidenced by the far fetched promises made in the declaration of the 2007 New Delhi Summit. The Declaration states the inclusion of trade in services under the scope of SAFTA. This will be very beneficial for Business-to-Business cooperation as services account for almost 50% of the GDP of all South Asian countries except for Nepal and now Afghanistan. India is beginning to realize the South Asian potential and has started to take up a bigger role by offering zero duty access to the Least Developed Countries of the region by 2008 as well as unilateral visa liberalization for students, teachers, journalists, and patients from SAARC countries.

For an unsuccessful SAARC is to transition into a successful South Asian Union, the countries of the region will have to break free from their past and build a different kind of relationship in the future that is devoid of the 'trust deficit'. Without this,

SAFTA is likely to be stillborn, or at the very least lead to sub-optimal levels of implementation. The formation of institutes such as the SAARC Chamber of Commerce and SAARC Finance are commendable achievements, but they can only be successful if there is political will.

With the theme of the upcoming Summit in Colombo based on "Towards a South Asian Union: Growing Together", a South Asian economic community, or even a common currency for South Asia is not a utopian concept if the member states are willing to dispel mistrust and agree to collectively work towards the future for the sustainability of all its peoples.

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